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having been
there is no evidence of its ~~being~~ applied in any specific case.

The economic advantage given Overseas Chinese by the more favorable credit terms available from the Bank of China not only induces ~~him~~^{them} to line up on the Communist side, but brings an increasing share of the business in the Overseas Chinese community under Communist control. Anti-Communist businessmen and shopkeepers find themselves ~~under~~^{at} a disadvantage and are increasingly isolated. Not only are the children of the Bank of China borrowers committed to Communist schools, but the financial resources of the borrower are available for the support of those schools, ~~while~~^{while} the ability of anti-Communist Chinese to support their schools is correspondingly reduced. This is also true of the financial support of other organizations. The loan program tends to ~~direct~~^{divert} the financial resources of the Overseas Chinese from support of anti-Communist schools, unions, societies, publications, etc., to the support of their Communist counterparts.

C. Scope and Magnitude of the Loan Program

~~1. In Rangoon~~
From the preceding paragraphs it is apparent that the loan program is designed to catch persons of all economic ~~classes~~^{cl}, from the peasant who needs a few kyats to tide him over until harvest, to the big rice-miller who needs a large sum (one such miller reportedly borrowed Ks. 1 million or about \$200,000 U.S. dollars¹) to finance his operations. The program is also aimed primarily at bringing the Overseas Chinese under Communist control, although the support to the NUF in the election

1. FBRW-2984, ~~Dec~~ 14 January 1957.

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CHINESE COMMUNIST USE OF THE BANK OF CHINA FOR
POLITICAL PURPOSES

CHINESE COMMUNIST USE OF THE BANK OF CHINA FOR POLITICAL PURPOSES

One of the most important weapons used by Communist China in its efforts to exert its influence in the non-Communist countries of Southeast Asia and especially to win control of the Overseas Chinese communities is the Bank of China and its overseas branches. The experience of those countries in which such Communist-controlled Banks exist has shown clearly that they are used as political instruments by the Communist government of China.

Communists Take Over China Banking System

When the Communists won control of mainland China, part of the spoils which fell into their hands was the banking system, including the head office of the Bank of China in which a majority of the stock had been held by the Nationalist Government. This bank, as the principal foreign exchange bank of China, operated through a number of overseas branches. Whereas the head office, like other banks located on the mainland, had no choice but to accept Communist control, a situation developed in which the overseas branches did have such a choice. Nationalist officials of the Bank of China's head office in Shanghai moved to Taiwan, where they reestablished the Bank. The Communists transferred the Shanghai office to Peking and claimed control, by right of conquest, of the branch offices. The branches themselves then had to make a decision whether to accept the control of the head office in Peking or the one in Taipei.

A number of factors played a part in these decisions, including earlier Communist infiltration into the branches and the concern of non-political senior staff members with their career and pension prospects. Most important, however, was the decision of the

government of the country in which the branch was located as to whether to recognize the Communist regime as the Government of China. In each case, branches in countries which did recognize the Communist regime accepted the control of Peking, while those in countries which did not looked for direction to Taipei. As a result, as the attached chart shows, the Communists control branches of the Bank of China in London, Singapore, ~~Manila, Iloilo, Cebu~~, Penang, Djakarta, Medan, Surabaya, Calcutta, Bombay, Chittagong, Rangoon, Hong Kong, and Hanoi. The Nationalist Bank of China still exercises control over branches in New York, Sydney, Saigon, Cholon, Tokyo, Osaka, Bangkok, and Havana.

Reliable Communists Introduced Into Branch Bank Staffs

When the Communists took over control of these branch banks, they were unable to replace the old staff with reliable Communists from China, since they suffered from a shortage of such trained and experienced persons. They therefore kept on the job most of the old staff, including the managers. However, as their plans developed for the use of the banks as an instrument of political policy, they felt it necessary to make sure that there were politically reliable Communists in each branch, usually in second-level positions, who could exercise political supervision over the banks' operations and report to the Communist regime in Peking. In some cases such individuals were already present--in others new staff members were sent out from Peking for this purpose. Old staff members who are not regarded as completely reliable by the Communists have also been summoned to Peking for training.

In one country, in 1951, soon after the branch of the Bank of China accepted Communist control, four new officials came out from Peking to join the staff, one of them as assistant manager. All four are believed to be reliable Communist Party members and to have duties other than their normal bank responsibilities.

At least three managers of branch banks have been called to Peking for training courses of several months duration. Another sub-manager was supposed to attend this course, but was refused an exit permit by his host government.

In another country, a reliable Communist had been an official of the Bank before the war. This man has a record of Party membership and activity before and during World War II. He returned to the bank after the war and is believed to have played an important part in influencing its choice to accept Communist control. He has been the manager since 1951.

In addition to this control over the branch bank through staff members primarily loyal to the Communist Party in Peking, the Chinese Communist Embassies in the countries concerned also keep a close eye on the branch banks and exercise almost day-to-day control over their operations.

Communist Purposes in Control of Branch Banks

A question immediately comes to mind. For what purposes have the Chinese Communists continued to operate these banks and why do they find it necessary to take such pains to ensure their political reliability? It is clear that they have something in mind beyond the purely financial facilities and profits of the banks, although these are also useful to them, particularly in facilitating remittances of foreign exchange to China and in encouraging and controlling export-import trade with China.

Support of Political Opposition

One political use to which the Chinese Communists have put the Bank of China is as an instrument for the financial support of the local Communist organization in the country where the branch is located. According to press reports, the Government of Burma

believes that the gains made by the Communist-led National United Front in the elections in April, 1956, were due to the generous financial aid supplied to the Front by the Chinese Communists through the Bank of China. No doubt there are other cases which have not come to light in which Communist-influenced opposition groups have been aided with Bank of China funds. By channeling such aid through the Bank of China, the Communist Embassies may feel that they can thus maintain an ostensibly "correct" position in regard to the internal politics of the country in which they are located.

Control of Overseas Chinese

More important to the Chinese Communists, however, is the use of the branches of the Bank of China as instruments for influencing and controlling the Overseas Chinese communities which play so important a part in the life of many Southeast Asian countries. One of the major aims of Chinese Communist policy in this area is the winning of the Overseas Chinese to the Communist side and through them exerting Communist influence in the countries of the area.

Among the important institutions which influence the lives and attitudes of the Overseas Chinese are their schools, Chinese-language newspapers, and other publications, trade unions, shopkeepers associations, regional and mutual aid associations, etc. In all these fields, Communist-dominated agencies compete with non-Communist for membership and for the support and loyalty of the Overseas Chinese. By direct subsidies to Communist organizations the Bank of China gives them an advantage over the non-Communist agencies. Schools receive funds for the purchase of textbooks and buildings or for the employment of pro-Communist teachers. Pro-Communist newspaper owners receive loans from the Bank and in some cases the Bank has supplied funds for the purchase by a pro-Communist Chinese of a paper which was previously anti-Communist or neutral. Trade unions and other organizations, receiving financial help denied to anti-Communist groups, can offer greater benefits to their members and thus bring them under Communist influence.

The most far-reaching activity of the Bank of China in winning the Overseas Chinese to the Communist side, however, is its loan program. Businessmen on all levels require credit for the conduct of their businesses, whether it be the small liquor-shopkeeper or pawnbroker who needs a few dollars for advance rent or for payment for his license, or the big rice-miller who requires large sums to finance the purchase of rice from the peasants until he can dispose of the finished product. The cost of such credit is an important item in the cost of doing business and the businessman who can secure it at lower interest and on easier terms than his competitor has a definite advantage.

Political Conditions For Loans From Bank of China

The making of such loans is the normal business of a bank, Communist or not, but the Communist banks manage their loan business in such a way as to serve Communist political aims. They offer loans on easier terms and at lower interest than other banks. The Overseas Chinese businessman who can secure such a loan has an advantage over the one who cannot. Therefore, the bank makes sure that its loans go only to Overseas Chinese who will line up publicly on the Communist side. The borrower must be introduced by a reliable pro-Communist who will vouch for his political reliability. He must agree to send his children to a Communist school, to fly the Communist flag on holidays, and not to subscribe to or support any anti-Communist or Nationalist papers or organizations.

The anti-Communist who refuses to submit to such conditions, which have nothing to do with the soundness of his business or his ability to repay a loan, finds it increasingly difficult to compete with his Communist rival. As he finds his business declining, he may be driven by this economic pressure to lend his name and support to the Communist movement, even though his real convictions are just the opposite. By these means, the Communist-controlled Overseas Chinese businessmen, schools, papers and organizations grow in number and in strength, while the anti-Communists in the Overseas

Chinese communities are not only reduced in numbers, but find their financial resources for the support of anti-Communist activities steadily reduced.

Political Small Loan Program

Besides these businessmen for whom bank credit is a normal part of their operations and in whose cases the Bank of China has deviated from normal banking procedures only in attaching political conditions to its loans, there is another large group of Overseas Chinese who have a need for credit. Such a person may be a peasant who needs a small sum to tide him over until his harvest is in, a trishaw boy who wishes to purchase his vehicle, a street hawker who needs credit to purchase the few articles which constitute his stock, or a laborer who has lost his home and household furnishings in a fire. Such persons have not normally been eligible for bank credit, since such small loans are not profitable on bank terms, and since they have no security other than small items of personal property. They have traditionally depended upon the pawnbroker and the bazaar moneylender for their credit needs.

The Communist Bank of China has seen in the needs of these poorer people another opportunity to use its financial resources to build good will and support for Communism. It has set up in some countries a program of small loans, without security and at a very low interest rate. In one country they have granted such loans at a rate of 3/4% per month, as compared with the pawnbroker's charge of more than 3% per month! These are generous terms, indeed. But, like the businessman who borrows from the Bank of China, the individual who wishes to secure this generous loan must put himself under the control of the Communists. His children, too, must go to Communist schools. He must display the Communist flag and turn out for Communist demonstrations when called upon. He must not belong to or support any anti-Communist activities. Like the businessman, he has sold his political independence for the financial help of the Bank of China.

These activities of the Bank of China have resulted in bringing an ever larger part of the Overseas Chinese under Communist control; Communist schools, newspapers, and organizations grow more numerous and stronger and the anti-Communists grow fewer and weaker; the economic power of the Overseas Chinese which results from their control of much of the business in some countries is placed at the disposal of the Chinese Communists for their purposes.

Chinese Communist Embassies Control Bank Operations

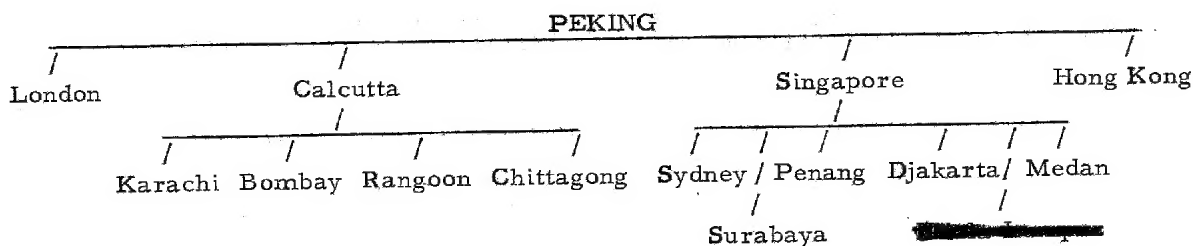
It is not surprising that for the management and direction of such a far-reaching and powerful instrument as this, the Chinese Communists are not content to trust the political wisdom and loyalty of the Bank officials, some of whom are not reliable Communist cadres. Chinese Communist Embassies and Consulates have the final voice in the approval or rejection of applicants for loans. The Bank officials simply carry out the orders of the Embassy. Since the Chinese Embassy officers usually do not know enough about the local Overseas Chinese community, they rely upon a local organization which is dominated by Communists to pass upon the economic and political status of applicants. This may be a Chinese Chamber of Commerce, a trading company, a labor union--any organization which has wide knowledge of the local community and which is controlled by Communists. The applicant for a loan files his application with this organization which investigates him and then passes the application, with its recommendation that it be granted or rejected, to the Chinese Communist Embassy. The Embassy reviews it and, if favorable, then passes it along to the Bank, which obediently grants the loan and does the paperwork. If the Bank sometimes loses money on these unsecured political loans, the Chinese Communists do not seem to care. The political gains are more important than the profits. It is difficult indeed for non-political banks, which must make profits if they are to stay in business, to compete with Communist banks which are willing to forego profits for political advantage.

Communist Banks A Danger To Non-Communist Countries

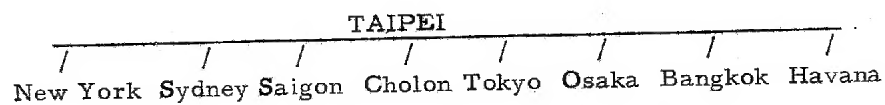
In every country which has an Overseas Chinese Community, a Chinese Communist Embassy and a Communist Bank, these things are going on in greater or lesser degree. Some Southeast Asian countries have seen this danger and so far, at least, have not permitted the establishment of Communist banks and diplomatic agencies for the subversion of their Overseas Chinese residents. The wisdom of their course is shown by the experience of other countries where the Overseas Chinese have been subjected to the economic and financial pressures exercised by the Communist-controlled banks.

THE BRANCHES OF THE BANK OF CHINA

A. Communist-Controlled



B. Nationalist-Controlled



The above system of sub-branches in the Communist-controlled sector is as reported prior to the Communist takeover. Whether it is still organized in the same way is not known.